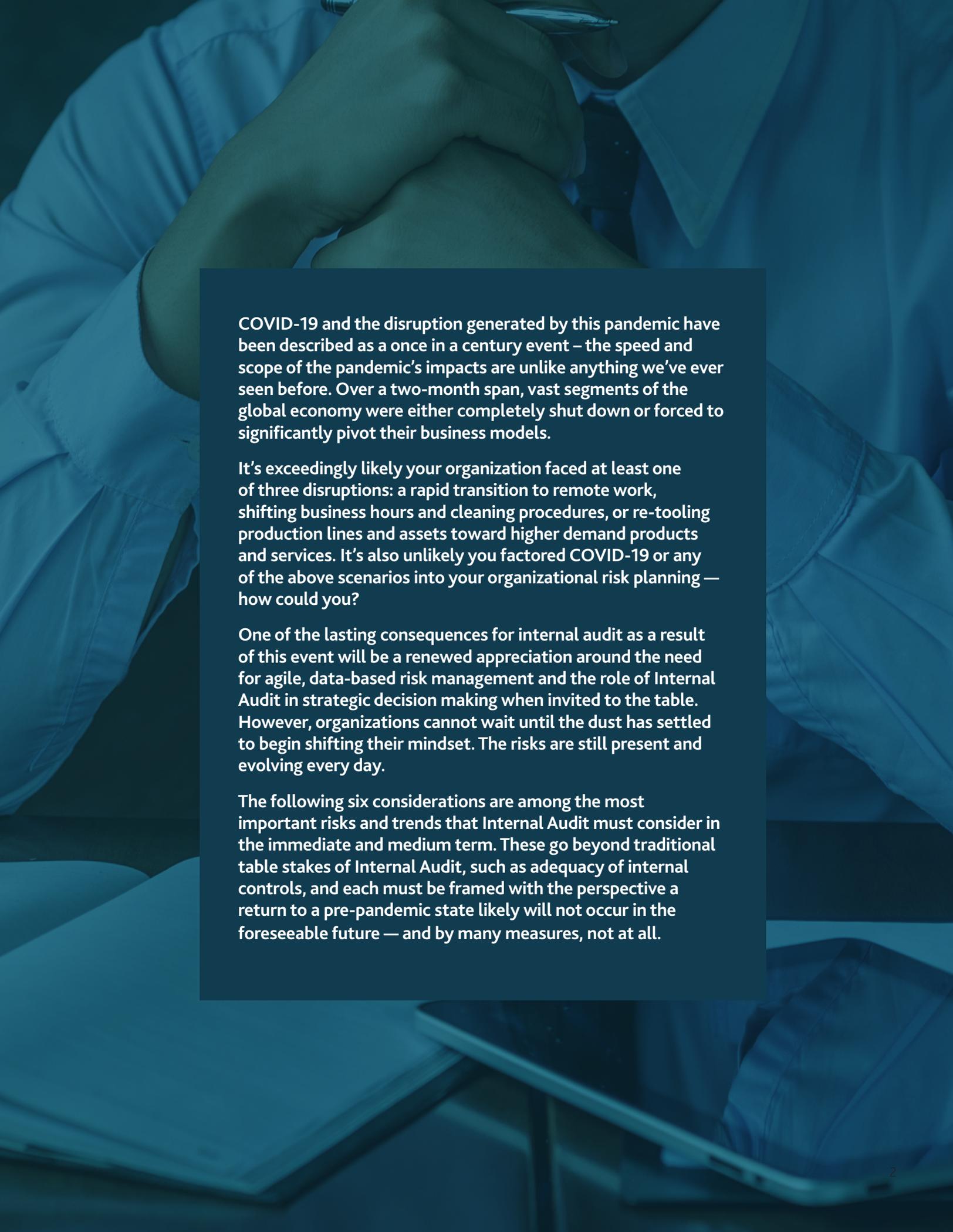




Internal Audit Trends During COVID-19 & Beyond



COVID-19 and the disruption generated by this pandemic have been described as a once in a century event – the speed and scope of the pandemic’s impacts are unlike anything we’ve ever seen before. Over a two-month span, vast segments of the global economy were either completely shut down or forced to significantly pivot their business models.

It’s exceedingly likely your organization faced at least one of three disruptions: a rapid transition to remote work, shifting business hours and cleaning procedures, or re-tooling production lines and assets toward higher demand products and services. It’s also unlikely you factored COVID-19 or any of the above scenarios into your organizational risk planning — how could you?

One of the lasting consequences for internal audit as a result of this event will be a renewed appreciation around the need for agile, data-based risk management and the role of Internal Audit in strategic decision making when invited to the table. However, organizations cannot wait until the dust has settled to begin shifting their mindset. The risks are still present and evolving every day.

The following six considerations are among the most important risks and trends that Internal Audit must consider in the immediate and medium term. These go beyond traditional table stakes of Internal Audit, such as adequacy of internal controls, and each must be framed with the perspective a return to a pre-pandemic state likely will not occur in the foreseeable future — and by many measures, not at all.

Effectiveness of Business Resilience Plans During COVID-19

Every organization has felt the impacts of the global pandemic. Most notably, an overnight shift in demand for products and services, both upward and downward. But also supply chain disruptions, business closures, increased costs for sanitation and personal protection equipment, and transitioning to remote work. Many were able to respond quickly to weather the storm. Some were not. In all cases, it required rapidly adjusting to a scenario very few would have ever planned for.

The restrictions are slowly relaxing across Canada, but the risks remain. It will take a long time for consumer and employee confidence to return. Some industries may never fully recover. And the potential for a second and subsequent waves will remain front of mind until a vaccine is broadly available. Now that the threat and all its potential scenarios are clearer, business resilience planning needs to accelerate.

Consider the best and worst cases along with the costs and benefits of your various responses. Look at strategic opportunities to pivot or capitalize where competitors can't. Don't just think about the immediate impacts and concerns six or 12 months forward — but also the cultural and technological shifts that will define this period. The initial shock may be over, but the time for planning has just begun.

COVID-19 IMPACT

Many companies had not developed pandemic response plans and determined their business resilience plan was not sufficient— especially with regard to employees working remotely and dealing with material impacts on demand and/or supply related to their business model. For example, did airlines have plans to find alternative revenue sources, such as converting passenger planes to cargo planes?

FUTURE NEW NORMAL

Companies will need to undertake scenario-planning on a regular basis, with the assumption that material risks and trends will continue to change.

Cyber Tsunami

Appropriate cyber measures continue to be a primary concern as more organizations pursue digital transformations. Cloud and internet-connected technologies have the potential to improve security. But, also introduce additional points of failure for a would-be cyber criminal to breach and access sensitive information.

What's more, organizations are producing and collecting more data points than ever — all of which is a potential lure for hackers and liability if information falls into the wrong hands. A blanket approach to protecting everything is exceedingly impractical. It's prudent to prioritize controls and understand what measures are necessary to simultaneously protect the business and meet increasingly strict regulatory obligations.

The sudden onset of COVID-19 and the new risks it introduced has also proven to be a massive windfall for cyber criminals. An onslaught of phishing emails leveraged the coronavirus to prey on user fears and allowed attackers to breach business networks. Many organizations also had to rapidly switch to remote working environments without appropriate data security controls, leaving them vulnerable to attacks via employees' home networks.

Training and remote working controls such as VPNs and cloud services continue to be critical given the uncertainty around the immediate and long-term business landscape. Some degree of remote working will likely be a mainstay of the work environment moving forward and will need to deliver the same or greater risk management as a robustly controlled office environment.

COVID-19 IMPACT

Many industries have seen a significant increase in hacking attempts. With employees working remotely, the risk of data privacy breaches has increased.

FUTURE NEW NORMAL

Many organizations are working towards significant digital transformations which rely heavily on technology to manage supply and demand. It's critical to evaluate whether cyber security controls are effective and efficient enough to deal with this level of change and new/evolving risks. Do corporate policies address the unique conditions related to many employees working remotely?

Fraud and data ethics

Even as data collection and analysis becomes increasingly centralized, access to and the decisions resulting from that information is trending in the opposite direction. Organizations need to empower various leaders and departments to not only act more independently, but also from various locations within and outside of the office. This heightens concerns around who has access to what information, what people can do with that information, and whether everyone is acting in the best interest of the organization.

Fraud has always been a fundamental business risk. But the capacity for serious impropriety has historically rested with relatively few people usually senior executives and high-level decision makers. As organizational data becomes more accessible to a wider array of people and across more and less regulated environments — including people's homes — the opportunities for leaks, manipulation, and unethical behaviour grows.

The COVID-19 crisis has amplified these risks. Financial and social stresses cloud judgement and may encourage otherwise trustworthy employees to make desperate and irrational choices. Distracted leaders with numerous competing priorities may be less attentive to fraud and data controls. Likewise, it's easier to miss the restriction of access for temporarily (or permanently) laid off team members.

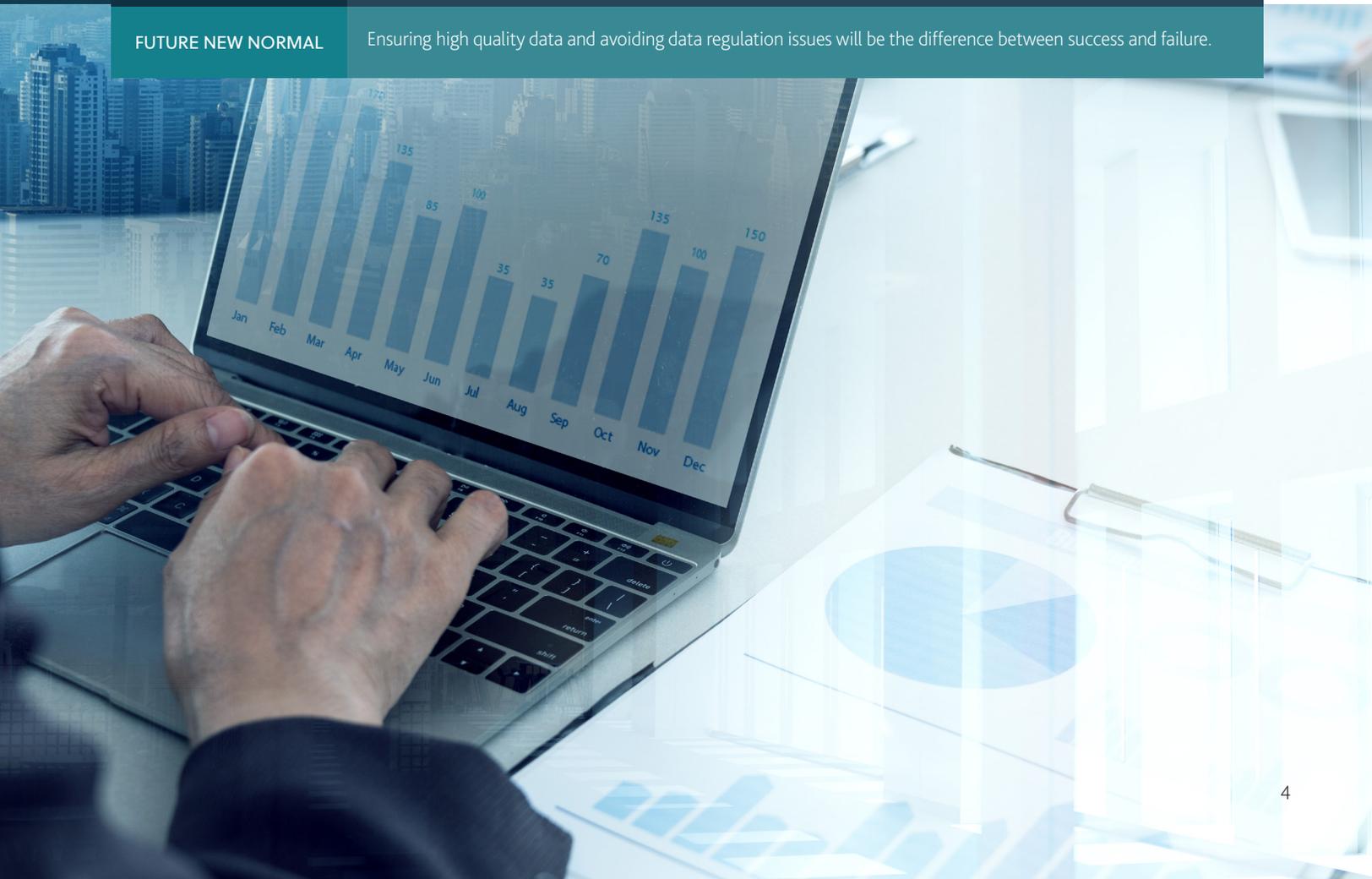
Complacency is also a massive problem. Digital financial and data management systems may have specific controls, paper trails, and warning systems built in — but still require a human element to heed and investigate control failures or instances of non-compliance. People will always find a way to work around policies and procedures and fly under the radar. Organizations need to understand where and when these behaviours are most likely to occur and step up auditing or control activities to catch them as early as possible. Regarding data ethics: Is your organization getting value from and effectively managing risks related to critical data?

COVID-19 IMPACT

When the world started working remotely, data almost instantaneously became critical to success. However, users face significant issues if the data being received remotely lacks integrity or is being shared inappropriately. Not to mention, fines and legal fees related to privacy breaches.

FUTURE NEW NORMAL

Ensuring high quality data and avoiding data regulation issues will be the difference between success and failure.



Disruptive Innovation - Digital Transformation Strategy

Organizations that were keen on the potential benefits of digital transformations heading into 2020 quickly realized they no longer have the luxury of a slow and steady approach. Manual processes and legacy technologies simply could not keep up with the rapid and global impacts of COVID-19. And with social and technological change continuing to accelerate, it's likely future crises will demand a similar, if not faster, response.

Organizations that already adopted cloud storage and productivity tools were able to transition to remote work environments faster and more seamlessly. Those with robust enterprise resource planning systems and maturing analytics programs minimized the real time impacts to the business and adapted quickly to shifting employee and consumer demands. Those enabled with artificial intelligence and machine learning tools could scenario plan faster and pivot more reliably toward their new normal, rather than waiting to respond to the evolving news cycle.

Digital transformations need to fit the needs and goals of the organization. But they also need to be iterative. Use recent events to evaluate the largest gaps and immediate risk mitigation requirements and pursue technologies and practices that will close those first. Then begin looking at other risks on the horizon that transformation opportunities can address before they become crises. Today's tools are meant to integrate and evolve. It's not about choosing the perfect solutions, but ones that address the most acute needs now and which can slowly be optimized over time. Is digital transformation creating new risks and a need for different or changed controls?

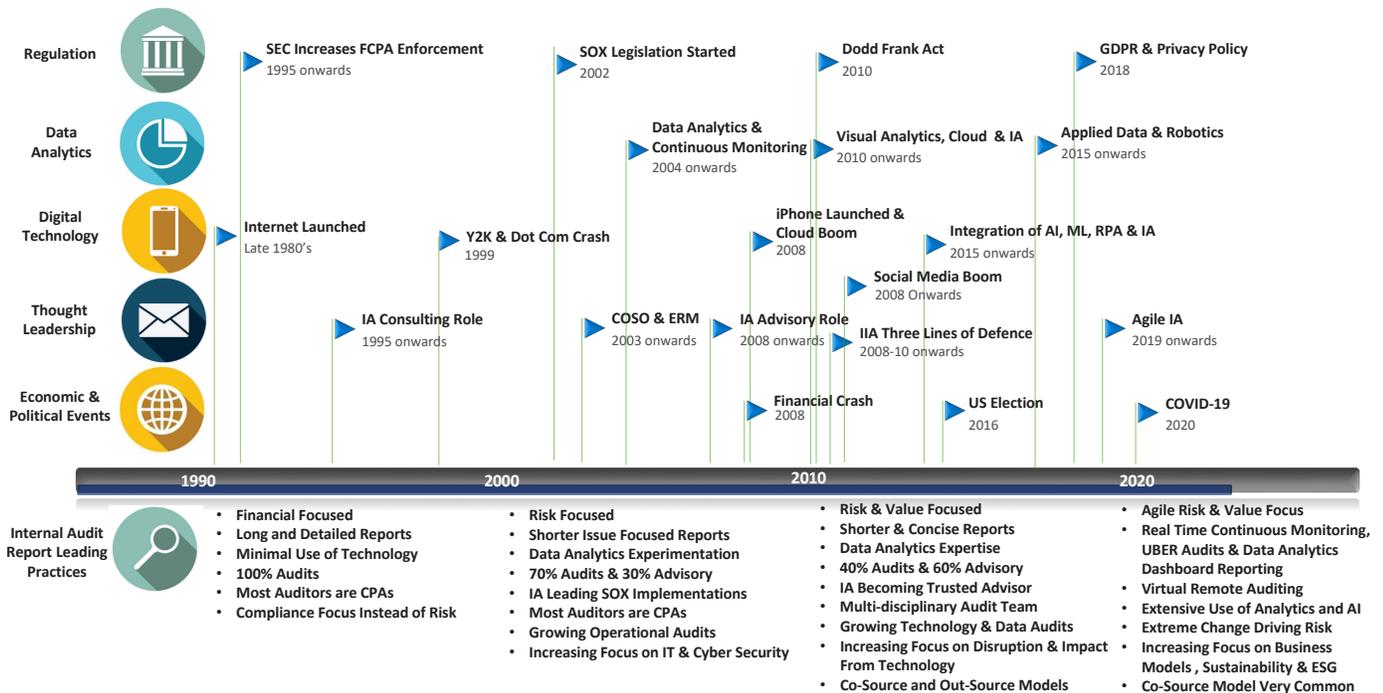
COVID-19 IMPACT

The primary outcome of COVID-19 is the need for a minimum level of digital capability to maintain business as usual or evolve the business to meet changing consumer demand. This has led to significant change for some organizations. For others, it has meant full steam ahead for digital transformation. Additionally, data analytics can provide not only high value insight and decision support, it can also act as a continuous monitoring control. It can be run remotely with online access to data. *Are you confident that your controls are still working affectively after assessing the impact of digital transformation and process change?*

FUTURE NEW NORMAL

Digital capability and automated technology have moved from a nice to have to a survival mechanism. The continuous question of the future will be, "what can robotics do more efficiently and effectively versus humans?" All predictable, repeatable, and frequent processes may soon be replaced by robotic process automation and some form of continuous monitoring using data analytics. *Are you getting sufficient return on investment from your resources by using technology?*

The evolution of internal audit up to 2020



Securities and Exchange Commission (SEC)
 Foreign Corrupt Practices Act (FCPA)
 Sarbanes-Oxley Act (SOX)

General Data Protection Regulations (GDPR)
 Internal Audit (IA)
 Artificial Intelligence (AI)

Machine Learning (ML)
 Robotic Process Automation (RPA)
 Committee of Sponsoring Organizations (COSO)

Enterprise Risk Management (ERM)

Investor Evolution - ESG: Environment, Social, and Governance

Businesses and consumers increasingly want to work with organizations whose values, beliefs, and behaviours align with their own. Leaders have historically leaned on corporate social responsibility and community investment initiatives to demonstrate these commitments. But it's no longer enough to treat these activities as peripheral or nice to have; there is now an increasing expectation that corporations are actively adopting formal ESG practices with which they can outwardly demonstrate their ESG efforts.

ESG considers the extent to which an organization enhances stakeholders' quality of life, minimizes environmental damage, and promotes fairness, transparency, and accountability across its value chain. It integrates these qualities across the organization and ensures they are clear, resonant and consistent at every touchpoint — from head office through to the myriad vendors, partners, and distribution channels. Some prominent examples include adopting LEED building certifications, fair trade practices, and enforcing gender and ethnic diversity in board and executive positions.

Citing the large costs involved and the economic fallout related to COVID-19, many organizations have opted to pause ESG investments until conditions stabilize though this may have a negative short-term impact on the organization. With increased competition and emphasis on social and political concerns, ESG is becoming table stakes. Organizations that make it a priority will rapidly gain market share.

COVID-19 IMPACT

Investors have no choice but to revisit how they invest their money. As the world sits at home and works remotely, the average investor is starting to question their many reasons for investing the way they do. Most importantly, they want to know if their investments are resilient against the backdrop of a global pandemic.

FUTURE NEW NORMAL

Investors will seek information and assurance regarding the adequacy of risk mitigation efforts, including proactive efforts toward ESG.

Evaluating Culture & Strategy (including employee engagement)

Strategy defines where an organization wants to be in time. Culture dictates, in part, how it will get there. Both elements are necessary for a consistent, aspirational, values-based workplace where everyone understands their purpose and works toward a common objective.

Cultural and strategic alignment is required in order to efficiently achieve your goals. Teams have clear benchmarks, shared objectives, and plenty of runway to work on desired projects. It becomes more difficult during times of uncertainty. Organizations instinctively become reactive, communication breaks down, and people are left to speculate about what's going to happen next.

Employee engagement was one of the most acute challenges many leaders faced entering the COVID-19 lockdown. Especially for organizations that were not accustomed to remote work environments, required temporary workforce reductions, needed to accommodate parents with children, or incentivize employees to continue working despite decidedly more hazardous working conditions. At times like these, it's impossible to overstate the value of frequent, clear, and consistent communication from leadership.

Organizations often become defined by how they handle themselves in a crisis. This means taking practical steps to monitor the impact events are having on the ground level. Human resource teams need tools and measurements to see how employee attitudes and behaviours are fluctuating day by day and to assess the level of employee engagement. Managers require training to spot early warning signs of cultural breakdown on their teams. Executives need to understand how their cultural climate is responding to various scenarios and what steps they can take to regain confidence and re-establish alignment with immediate, mid-, and long-term strategic objectives.

COVID-19 IMPACT

As the world moves to working remotely, executive teams and boards are asking different questions. The reality is some cultures are not aligned with corporate strategy. And the gap between culture and strategy becomes even more apparent when employees are working remotely and employee engagement is weak.

FUTURE NEW NORMAL

Workplaces are unlikely to fully return to their pre-pandemic state. Now that team members understand remote options are viable, it's likely they will expect greater autonomy, flexibility, and trust from employers. At the same time, employers need to re-evaluate how they create cultural alignment and support employee engagement.

Conclusion: Agility Creates Value

Helping organizations adapt to rapidly shifting conditions and demands is the most important function of today's Internal Audit teams. The availability of digital tools and techniques has improved visibility into emerging risks and challenges — and how they connect across various areas of the business. But it's what leaders can do with this information that really counts.

Risks and priorities are evolving faster than ever. Disruption is no longer just a technological concern, but a daily consideration that affects every decision across every department. Internal Audit can be the glue that binds teams, leaders, strategies and culture. By providing timely, actionable insight and a global view of the factors that affect the organization on both a macro and micro scale, internal audit is in the unique position to not only identify new and evolving risks, but also has the ability to influence and steward the organization's timely response.

The following table provides a summary of key questions, red flags, and common mitigations in relation to the 2020 risk trends identified in this article, and a few other risk trends not identified above.

2020 Risk Trends	Key Questions	Red Flags	Common Mitigations
Effectiveness of Business Resilience Plans During COVID-19	<ul style="list-style-type: none"> • Did your business effectively and efficiently minimize strategic and operational adversity related to COVID-19? • Did employee morale decline materially while working remotely? 	<ul style="list-style-type: none"> • System and operations down time • Lost sales • Poor morale • Unusual expenses 	<ul style="list-style-type: none"> • Proactive and frequent communication from leadership • Investment in required technology • Internal audit of business resilience plan effectiveness
Cyber Tsunami	<ul style="list-style-type: none"> • Did cyber attacks increase in the first half of 2020? • Did your organization experience some form of data breach? • Were your systems unable to function due to a cyber incident at any point? 	<ul style="list-style-type: none"> • Increase in hacking attempts and data breaches • System failure • System and operations down time 	<ul style="list-style-type: none"> • Increased cyber security controls • Increased employee training • Internal audit of cyber security risk assessment and related controls
Fraud and data ethics	<ul style="list-style-type: none"> • Have suspicious transactions increased in the first half of 2020? • Have assets gone missing since employees started working remotely? • Have you seen a spike in tips to your whistleblower hotline? • Do you know whether confidential, restrictive, or private data has been accessed by unauthorized individuals? • Are your assurance functions working together to minimize costs and optimize value? 	<ul style="list-style-type: none"> • Increased number of accounting issues • Missing assets • Increased hotline activity • Improper access to, or loss of, confidential, restrictive or private data • Contact from external authorities or regulator • Audit or assurance fatigue 	<ul style="list-style-type: none"> • Fraud risk assessment by Internal Audit • Employee and vendor training on code of conduct and anti-fraud controls • Continuous monitoring systems • More frequent and comprehensive investigations • More urgent tone from the top communication from leadership. • Coordinated integrated assurance
Disruptive Innovation : Digital Transformation Strategy	<ul style="list-style-type: none"> • Is your company's digital presence inferior to your competition and is this causing you to lose sales and market share? • Has your digital transformation slowed down in the first six months of 2020? • Are you able to access the talent and resources to complete your digital transformation? 	<ul style="list-style-type: none"> • Customer complaints regarding the lack of a sufficient digital presence • Decline in sales and market share • Employees are unable to complete critical work tasks remotely 	<ul style="list-style-type: none"> • Investment in new technology or third-party support to complete digital transformation • Internal audit or advisory to benchmark your digital capability versus your competition
Investor Evolution - ESG: Environment, Social, and Governance	<ul style="list-style-type: none"> • Are investors asking about your organization's willingness to disclose more on initiatives related to ESG? • Is your organization reporting much less than your competition on ESG? 	<ul style="list-style-type: none"> • Continuous questions from investors in relation to ESG • Investors or financial capital providers identifying opportunity to improve ESG disclosure 	<ul style="list-style-type: none"> • Enhance quality of ESG reporting and disclosure to meet or exceed the expectations of investors • Create a three-year ESG initiative plan that aligns strategy with the interests of stakeholders and investors

2020 Risk Trends	Key Questions	Red Flags	Common Mitigations
Evaluating Culture & Strategy (including employee engagement)	<ul style="list-style-type: none"> Has your organization ever audited your culture to ensure it aligns with your strategy? 	<ul style="list-style-type: none"> Signs that your current culture is not aligned with your strategy include: <ul style="list-style-type: none"> Increase in whistle blower hot line calls since the COVID-19 impact started indicating potential non-compliance to the code of conduct, controls, and company policies. Decisions are being made that direct key resources away from critical strategic initiatives. There is a lack of tone from the top enforcing ethical and cultural principles. 	<ul style="list-style-type: none"> Internal audit which focuses on cultural / strategic alignment and identifies major gaps.
The Future of Work & Knowledge Management During and After COVID-19	<ul style="list-style-type: none"> Have productivity and employee engagement increased or decreased during COVID-19? Has your organization struggled to access high-quality insight and decision support information since the start of COVID-19? Is your organization's knowledge management set up to ensure insight and information are easy to find and readily available in case key individuals are not available or have left the company? Are organizational knowledge and data classified and stored according to compliance requirements? 	<ul style="list-style-type: none"> Material changes in productivity and employee engagement Employee and customer complaints related to difficulty accessing required insight or data Decision speed has slowed since the start of COVID-19 because current systems and knowledge management processes make it difficult to access what is needed Critical knowledge is lost when key individuals leave your organization 	<ul style="list-style-type: none"> Continuous assessment of acceptable productivity and morale strategies to maintain an acceptable range Implement a data governance and management strategy that optimizes your organization's ability to provide key insights and information to employees as required Internal audits focused on data governance, management, related systems, process, and compliance requirements
Cost Management Analytics & Automated Assurance Leveraging audit technology	<ul style="list-style-type: none"> Has there been an immediate need to reduce expenses and optimize cash flow management? Have expenses grown excessively in the first half of 2020? Have internal controls been effective since employees started working remotely? Can your organization leverage data analytics or continuous monitoring? 	<ul style="list-style-type: none"> Immediate need to reduce expenses (i.e. material layoffs) Excessive growth in expenses Increase in control failures Inability to monitor financial trends effectively 	<ul style="list-style-type: none"> Scenario planning and related forecasts New expense analytics and continuous monitoring Internal audits related to expenses
Third Party Risk, Vendor Audits, & Capital Projects	<ul style="list-style-type: none"> Have any of your vendors / partners declared bankruptcy or made material changes? Are your construction projects experiencing unusual delays, cost overruns, or quality issues? Have there been project continuity issues in the first six months of the year? 	<ul style="list-style-type: none"> Inability to receive goods or services Material quality issues Adverse trends in costs, schedule delays, and quality issues Issues with the reliability of third parties. Inability to accurately forecast the cost at completion 	<ul style="list-style-type: none"> Assess contingency options Utilize data analytics to assess cost, time, and materials issues. Internal audits on contracts compliance and trends analysis.
Data Governance, Management, Privacy and Security	<ul style="list-style-type: none"> Does your organization have too much data, or does data lack integrity — and this is causing reduced productivity? Does your organization lack access to the data or insights needed for optimized decision making? Have you experienced data privacy issues? Does data categorization, organization, and storage meet decision support needs and external regulations? Has important data gone missing? 	<ul style="list-style-type: none"> Complaints regarding excessive time required to access data and insights Inability to access what is needed remotely Data privacy and security issues 	<ul style="list-style-type: none"> Create an organizational data governance and management strategy Use data analytics to assess data integrity Invest in technology that allows secure remote access to required data Internal audits of data governance and analytics capability



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